

Message Text

CONFIDENTIAL

PAGE 01 LAGOS 03634 01 OF 02 010831Z

ACTION AF-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 USIA-06 AID-05

EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

COM-02 FEA-01 ERDA-05 CIAE-00 COME-00 DODE-00

FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 PM-04

OES-06 ACDA-07 /120 W

-----010907Z 127148 /11

R 010703Z APR 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 230

AMEMBASSY JIDDA

INFO AMEMBASSY ALGIERS

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY TEHRAN 276

AMEMBASSYSTRIPOLI

C O N F I D E N T I A L SECTION 1 OF 2 LAGOS 3634

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: STATUS OF NIGERIA'S ANTICIPATED NEW PETROLEUM INVESTMENT
INCENTIVES

REF: A) 76 STATE 284076; B) 76 LAGOS 12522; C) 76 LAGOS 12520;

D) 76 LAGOS 12140 (ALL NOTAL)

SUMMARY: PRESSING DEMAND FOR NIGERIAN CRUDE, ESPECIALLY IN
U.S.,APPEARS TO BE STRENGTHENING INTEREST OF OIL COMPANIES
IN INVESTING IN ADDITIONAL NIGERIAN PRODUCTION. SETTLEMENT
OF OUTSTANDING COMPENSATION CLAIMS HELPED IMPROVE INVESTMENT
ATMOSPHERE. HIGH LEVEL COMPACY DELEGATIONS APPEAR ENCOURAGED
BY RECENT TALKS WITH MINISTRY OF PETROLEUM RESOURCES WHICH
HAVE GIVEN IMPNSSION THAT NEW INCENTIVES WILL INCLUJE
PROVISION TO AUTHOMATICALLY RAISE PROFITS TO ALLOW FOR HIGHER
COSTS AS OPERATIONS MOVE INTO DEEPER OFFSHORE AREAS.ILARGEST
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LAGOS 03634 01 OF 02 010831Z

PRODUCER SHELL BP IN PARTICULAR SEEMS COMMITTED TO MAKING
SUBSTANTIAL INVESTMENTS IN NEW PRODUKCION ON GROUNDS IT
HAS LITTLE CHOICE GIVEN NEED FOR OIL. END SUMMARY.

1. WE HAVE HEARD VITURALLY NOTHING CONCRETE ABOUT FMG'S
LONG AWAITED NEW INCENTIVES TO REVIVE INVESTMENT IN
EXPLORATION AND DEVELOPMENT SINCE OCTOBER LAST YEAR

WPEN MINISTRY OF PETROLEUM RESOURCES (MPR) OFFICIALS SAID THAT ACCELERATED CAPITAL DEPRECIATION AND NEW CONCESSION AREAS, BUT NOT HIGHER PER BARREL PROFIT MARGINS, WERE LIKELY TO BE INCLUDED. IN LATE DECEMBER DIRECTOR OF PETROLEUM RESOURCES F.R. A. MARINHO TOLD DISCOURAGED OIL COMPANY EXECUTIVES NOT TO EXPECT ANYTHING UNTIL AT LEAST APRIL 1977.

2. RECENTLY, HOWEVER, HIGH LEVEL GULF OIL OFFICIALS FROM HOUSTON WPO CALLED ON MARINHO TO REVIEW PROSPECTS EMERGED SOMEWHAT ENCOURAGED BY WHAT THEY WERE TTPJBM ACCORDING TO LOCAL MANAGING DIRECTOR LARRY TURNER, MARINHO SAID INCENTIVES POLICY HAS BEEN DRAFTED BUT MPR HAS BEEN GIVING TOP PRIORITY RECENTLY TO REORGANIZATION OF MINISTRY AND SEVERAL PARASTATAL OIL-RELATED COMPANIES INTO NEW NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC) BECAUSE DECRESS ESTABLISHING NNPC BECOMES EFFECTIVE APRIL 1. MARINHO HOPED THAT THEREAFTER RAPID PROGRESS COULD BE MADE ON FINAL ASPECTS OF INCENTIVE PROGRAM SO THAL IT WOULD BE POSSIBLE ANNOUNCE NEW TERMS IN MONTH OR TWO. MARINHO ADDED THAT INCENTIVES WOULD INCLUDE PROVISION TO ADJUST PROFITS AUTOMATICALLY TO TAKE INTO ACCOUNT HIGHER COSTS AND RISKS AS INVESTMENT MADE IN FACILITIES IN DEEPER OFFSHORE AREAS. TURNER SAID ALTHOUGH MARINHO DID NOT ELABORATE, HE ASSUMES THIS MIGHT BE ARRANGEMENT SIMILAR TO THAT IN NORTH SEA BY WHICH ROYALTY RATE DECLINES AS WATER GETS DEEPER. TURNER OBSERVED THAT INVESTMENT COSTS PER DAILY BARREL OF PRODUCTION CAPACITY RUN FROM DOLLARS 2,000 TO 2,500 IN WATER UP TP 80 FEET DEEP, BUT ESCALATE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LAGOS 03634 01 OF 02 010831Z

RAPIDLY TO AS MUCH AS DOLLARS 10,000 AT 600 FEET. MARINHO RESPONDED THAT FMG IS DEFINITELY INTERESTED IN DEVELOPING DEEPER OFFSHORE TERRITORY.

3. SOME SYSTEM OF GRADUATED RETURNS TAILORED TO ACTUAL INVESTMENT COSTS MAY RESOLVE IMPASSE BETWEEN COMPANIES AND FMG WHICH APPEARED LIKELY IF NEW INCENTIVES OFFERED NO IMPROVEMENT IN PROFIT MARGINS (SEE REFTELS). PETROLOFF HAS GAINED DISTINCT IMPRESSION OVER PAST MONTH THAT COMPANY OFFICIALS INCREASINGLY WILLING TO CONCEDE THAT, AS MPR CONTENTS, A SUBSTANTIAL PORTION OF EXISTING PRODUCTION FACILITIES, PARTICULARLY OLDER ONES ONSHORE, ARE ALREADY ACCEPTABLY PROFITABLE EVEN AT LOWER PER BARREL MARGINS SET IN 1976. WHILE COMPANIES WOULD OF COURSE LIKE TO GET ACCROSS THE BOARD INCREASE IN PROFIT MARGINS, THEY NOW SEEM ALMOST EAGER TO ACCEPT ANY ALTERNATIVE ARRANGEMENT AS LONG AS IT WILL RESTOR SATISFACTORY RETURN ON COSTLY OFFSHORE INVESTMENTS MADE OVER PAST THREE YEARS AND PROVIDE ACCEPTABLE RETURN ON FUTURE INVESTMENTS. FOR

THEIR PART, MPR OFFICIALS SEEM INCREASINGLY WILLING TO
AGREE THAT HIGHER COSTS DO JUSTIFY HIGHER RETURNS, AS LONG
AS FMG CAN BE SURE IT NOT BEING HOODWINKED INTO GIVING
AWAY MORE THAN ABSOLUTELY NECESSARY.

4. THIS APPARENT THAW IN COMPANY ATTITUDE TOWARD
INVESTING IN NIGERIA MAY INDICATE EDKS##
TO FMG PAYMENT
AGIP, AND SHELL-BP. CONTRARY TO COMMENTS MOBIL OFFICIALS
MADE TO DEPTOFFS IN EARLY NOVEMBER (REFTEL C), LOCAL
MANAGING DIRECTOR BOB MILLS TOLD EMBOFF AT TIME THAT
MOBIL WAS VERY HAPPY WITH PAYMENT, THAT SETTLEMENT WAS
COMPLETELY IN ACCORD WITH TERMS OF AGREEMENT. FIRST 35
PERCENT FMG ACQUISITION PAID FOR ON BASIS OF UPDATED BOOK
VALUE, REMAINING 20 PERCENT AT NET BOOK VALUE. MOBIL
WAS PAID THE DOLLARS 115 MILLION IT CLAIMED, PLUS
OVERPAYMENT OF DOLLARS 31MILLION WHICH MILLS SAID WAS
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LAGOS 03634 01 OF 02 010831Z

RESULT OF MPR OVERSIGHT IN FAILING DEDUCT AMOUNTS DUE
FOR PAST CRUDE LIFTINGS ACD WHICH WOULD RETURNED.
TURNER OF GULF SAID HIS COMPANY WAS PAID DOLLARS 98 MILLION
IT CLAIMED (PLUS OVERPAYMENT OF DOLLARS 14 MILLION) AND WAS
SATISFIED. PHILLIPS ALSO APPEARED SATISFIED ALTHOUGH
SOMEWHAT CONCERNED IT MIGHT HAVE PROBLEMS COLLECTING ITS SHARE
FROM PARTNER AGIP.

NOTE BY OC/T: ##AS RECEIVED.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LAGOS 03634 02 OF 02 010849Z

ACTION AF-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 USIA-06 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
COM-02 FEA-01 ERDA-05 CIAE-00 COME-00 DODE-00
FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 PM-04
OES-06 ACDA-07 /120 W

-----010908Z 127709 /11

R 010703Z APR 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 231
INFO AMEMBASSY JIDDA
AMEMBASSY ALGIERS
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI

C O N F I D E N T I A L SECTION 2 OF 2 LAGOS 3634

5. SECOND, PERHAPS MAJOR IMPETUS TO INVEST IS CONTINUING STRONG DEMAND FOR NIGERIAN LIGHT CRUDE, PARTICULARLY IN U.S. INDUSTRY SOURCES EXPLAIN THAT LARGE NUMBER OF U.S. REFINERIES DESIGNED TO PROCESS ONLY LOW SULFUR SWEET CRUDE ARE CONFRONTED WITH DECLINING DOMESTIC PRODUCTION OF SWEET CRUDE AND CUTBACK IN CANADIAN EXPORTS TO U.S. SURGING U.S. IMPORT DEMAND TOGETHER WITH SUITABILITY OF NIGERIAN LIGHT CRUDE FOR PRODUCING EITHER GAS OIL FOR HOME HEATING OR GASOLINE, PLUS GEOPHIC PROXIMITY OF NIGERIA, HAVE FOCUSED REFINERS ATTENTION ON THIS COUNTRY. BECAUSE OF THE AVAILABILITY OF LOW-PRICED U.S. DOMESTIC OIL FOR BLENDING, U.S. BUYERS HAVE NOT BEEN DISSUADED BY THE HIGH PRICE OF NIGERIAN CRUDE, AND IN FACT HAVE BEEN ABLE TO OUTBID OTHER BUYERS. FINALLY, UNDER THE U.S. ENTITLEMENT SYSTEM INDEPENDENTS COULD OBTAIN NIGERIAN CRUDE FROM PRODUCERS LIKE GULF OR MOBIL, BUT HAD TO PAY THE PRODUCERS ADDITIONAL HANDLING FEES AND SULFUR DIFFERENTIALS. THIS CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LAGOS 03634 02 OF 02 010849Z

CREATED A SURGE OF INTEREST ON THE PART OF INDEPENDENTS IN OBTAINING SEPARATE THIRD PARTY CONTRACTS WITH THE NIGERIAN NATIONAL OIL CORPORATION OR IN SPOT CARGOS FROM TRADERS. NET RESULT OF ALL THESE FACTORS IS THAT OIL PRODUCING COMPANIES HAVE COME TO REGARD ACCESS TO GROWING VOLUMES OF NIGERIAN CRUDE AS A COMPELLING NECESSITY.

6. ALTHOUGH THIS CONCLUSION WILL NOT IMPEL COMPANIES TO INVEST RECKLESSLY REGARDLESS OF PROFITABILITY, ONE SENSES THEY ARE LESS AND LESS INCLINED TO MAINTAIN A HARD POSTURE ON INVESTMENT, ARE DETERMINED TO KEEP THEIR NIGERIAN PRODUCTION RISING, AND ARE GENUINELY ANXIOUS TO REACH ACCOMODATION WITH THE FMG. LIKE GULF, MOBIL OIL ALSO RECENTLY HAD TEAM OF TOP ECHELON EXECUTIVES IN LAGOS LED BY ALEX MASSAD WHO IS IN CHARGE OF WORLDWIDE EXPLORATION AND PRODUCTION, TO REVIEW SITUATION ALTHOUGH MASSAD NORMALLY EXPRESSES VERY HARD-NOSED ATTITUDE, MOBIL SHOWS NO SIGNS OF LOSING INTEREST IN NIGER AFTER THIS REVIEW. SHELL-BP, WHICH ALONE ACCOUNTS FOR NEARLY THREE-FIFTHS OF NIGERIAN PRODUCTION, HAS BEEN PUSHING AHEAD WITH SUBSTANTIAL INVESTMENTS, THOUGH PERHAPS

LESS AMBITIOUS THAN WOULD BE THE CASE IF PROFITS WERE
BETTER. SHELL-BP HAS JUST BROUGHT ON STREAM ITS LARGE
NEMBE CREEK FIELD WHICH SHOULD SOON BE PRODUCING UP TO
100,000 BARRELS PER DAY. THIS FIELD WAS CHOSEN FOR
DEVELOPMENT BECAUSE IT WAS ONSHORE AND CLOSE TO A TERMINAL,
THUS INVOLVING MINIMAL INVESTMENT. HOWEVER, SHELL-BP
MANAGING DIRECTOR ERNST HOTZ TOLD PETROFF HIS COMPANY
IS ALSO PROCEEDING WITH DEVELOPMENT OF NEW FIELDS IN ITS
EASTERN DELTA CONCESSIONS AROUND OPOBO, HALFWAY BETWEEN
BONNY AND MOBIL'S QUAI BOE TERMINAL, EVEN THOUGH THIS WILL
REQUIRE LAYING CONSIDERABLE NEW PIPELINE. HOTZ STRESSED
SHELL-BP FEELS IT MUST PROCEED IN GOOD FAITH AND HOPE FOR
THE BEST. HE CONCEDED SHELL-BP BETTER ABLE TO AFFORD THIS
POSTURE THAN OTHER COMPANIES BECAUSE ITS LARGE PRODUCTION
BASED AND PREPONDERANCE OF OLDER,
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LAGOS 03634 02 OF 02 010849Z

LESS COSTLY ONSHORE
FACILITIES KEEPS OVERALL UNIT COST OF ADDITIONAL
INVESTMENT LOWER THAN THEIRS.
CROSBY

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, INVESTMENT CLIMATE, COMPENSATION, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LAGOS03634
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770112-0089
Format: TEL
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770499/aaaadiay.tel
Line Count: 249
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 587c07ac-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 284076, 76 LAGOS 12522, 76 LAGOS 12520
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 16-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2928804
Secure: OPEN
Status: NATIVE
Subject: STATUS OF NIGERIA'S ANTICIPATED NEW PETROLEUM INVESTMENT INCENTIVES
TAGS: ENRG, NI, US, SHELL, GULF, MOBIL
To: STATE JIDDA
Type: TE
vdkgvwkey: odbcc://SAS/SAS.dbo.SAS_Docs/587c07ac-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009